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UNCLAS SECTION 01 OF 02 CAIRO 009379

SIPDIS

SENSITIVE

STATE FOR NEA/ELA AND EB/CIP
USTR FOR SAUMS/AUGEROT/MCHALE/NEUREITER
USAID FOR ANE/MEA MCCLOUD
COMMERCE FOR 4520/ITA/MAC/ANESA/TALAAT

E.O. 12958: N/A
TAGS: ECON ECPS EINT EINV ETRD KGIT EG
SUBJECT: TELECOM EGYPT: STABLE STOCK, GUARANTEED FUTURE?

REF: A. CAIRO 06163

¶B. CAIRO 09080

Sensitive but Unclassified. Please protect accordingly.

Summary

¶1. (SBU) Following the privatization of 20% of Telecom Egypt (TE) (reftels), share prices have stabilized, diminishing fears of a quick sell-off. Sherif Karara, Managing Director of EFG Holdings, and TE Chairman Akil Beshir recently told Econoff that TE has taken measures to combat losses from the approaching end of its monopoly. They implied also that the GOE may be guaranteeing TE's continued predominance in the marketplace. End summary.

TE stock on an even keel

¶2. (SBU) Almost one week into trading of TE shares on the Cairo-Alexandria Stock Exchange (CASE), the price of TE stock had leveled off to LE 20-21/share, following a two-day slide from LE 30.01/share to LE 19.85/share as experienced investors sold their holdings. The current value is considered realistic by local experts, who now anticipate the price per share may reach a maximum of LE 25 this month, and around LE 30 over the medium term. Fears of a mass sell-off did not materialize, as individuals new to the market held on to the shares in anticipation of future profitability; Sherif Karara, in a meeting early last week, told Econoff he did not expect a significant downturn in TE shares until at least late 2006. Although trade on TE shares contributed to a boost in total market capitalization to LE 441 billion at the end of last week, compared to LE 424.6 billion the preceding week, TE trading has not had a significant impact on market direction.

Countermeasures against the loss of monopoly

¶3. (SBU) Fears of TE faltering when its monopoly over international telecommunications gateways ends this month are inflated, according to Karara. He noted, for instance, that despite possible competition on the international side, domestic tariff increases could help maintain TE's overall financial health. According to Karara, local call tariffs in Egypt were subsidized at around 2 piasters/minute, and a raise in rates to a mere 4 piasters would allow TE to break even on domestic sales - if the GOE "had the courage" to implement an unpopular subsidy reduction. Several days after Econoff's meeting with Karara, TE in fact announced it would revise domestic tariffs on the basis of actual cost, in coordination with the National Telecommunication Regulatory Authority (NTRA). (Comment: Karara may have made his statement to Econoff with the benefit of inside information on the coming announcement. TE's failure to provide a timeline with the low-profile announcement underscores Karara's doubt over the GOE's determination to follow through. End comment.)

¶4. (SBU) Akil Beshir explained to Econoff that TE had already taken measures to lock up international profits, as well. TE has signed exclusive agreements through 2007 with Egypt's two mobile providers, MobiNil and Vodafone, for use of TE gateways, thereby securing 55-60% of international call revenues; Beshir noted that TE was working on similar agreements with European operators at the other end of international calls. He asserted that, given these measures and others, and general growth in the telecommunications market, TE international call revenues could remain stable or even increase slightly.

¶5. (SBU) Comment: We suspect Beshir's confidence indicates that the GOE has already assured TE it will not lose

profitability at least through 2007. Certainly, NTRA could regulate market entry in such a way as to guarantee that TE remains on top. Similarly, TE has been rumored as a candidate for a much-anticipated third mobile license, and the GOE could tailor the RFP so as to favor TE, which would then drop its 25.5% share of Vodafone in exchange for the more profitable third provider business. End comment.

JONES